MULTI-YEAR FINANCIAL PLANNING:
DEVELOPING A FIVE-YEAR FINANCIAL PLAN

FIRE SERVICE FINANCIAL MANAGEMENT

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ABSTRACT

Fire departments continue to struggle with the ongoing challenge of balancing limited resources with demands for service. Agencies that are wholly dependent on short term budgeting may be inviting financial crisis. Financial management has become a problem for fire departments that have not adopted a financial planning process which allows for the analysis of future trends and events as they relate to fiscal impact and budget adoption. The purpose of this project was to develop a five-year financial plan, thereby establishing a master planning tool which enhances the organization's ability to (1) plan now for the future, (2) bring current budget preparation and execution in line with multi-year financial planning efforts, and (3) develop a planning tool, a device which facilitates the analysis of future trends and events as they relate to fiscal impact on the department and the budgeting process. Action research methods were employed to answer the following research questions:

1. What are the components of multi-year financial planning?
2. What is the relationship between multi-year financial planning and the budgeting process?

A thorough investigation of the literature revealed that the three ingredients necessary in developing a multi-year financial plan are an informed decision making process, a strategic planning process, and a method of forecasting revenue and expenditure streams.

At each juncture in the process of developing a five-year financial plan, an informed decision making procedure was implemented. Depending on the specific aspect of the process, key stakeholders were identified and brought to the table. The strategic planning process included conducting an environmental scan and the development of a mission statement, goals, objectives, and performance measures. Forecasting of revenue and expenditure streams was accomplished using judgmental/expert, trend, deterministic, and econometric analysis, depending on the characteristics of

the stream being forecast.

The result of the research project was the identification of a comprehensive multi-year financial planning process for the fire district that met the needs of the governing body, management, the district, and the citizens. The five-year financial plan that was developed serves as a management tool used to facilitate the impact of trends and events as they relate to fiscal impact on the department and the budgeting process.

Three recommendations stem from this project. First, is the encouragement of any jurisdiction to take a proactive approach to financial planning, beginning with the adoption of an informed decision making process. Second, is to secure a full commitment from stakeholders and conduct a thorough inventory before beginning the process of multi-year financial planning. My final recommendation is do not get discouraged by set backs. Multi-year financial planning requires constant attention and adjustments.

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Introduction

In these times of restricted or declining revenues, increasing emphasis on quality customer service, measuring effectiveness and efficiency of operations, and demands from governing bodies requiring departments to "do more with less," planning for the future has become a paramount function in the fiscal survival of fire service agencies. Fire departments are faced with the ongoing challenge of balancing a limited resource base with service demands from the public. Agencies that are wholly dependent on short term budgeting may be inviting financial crisis. Financial management has become a problem for fire departments that have not adopted a financial planning process which allows for the analysis of future trends and events as they relate to fiscal impact and budget adoption.

The purpose of this project was to develop a five-year financial plan, thereby establishing a master planning tool which enhances the organization's ability to (1) plan now for the future, (2) bring current budget preparation and execution in line with multi-year financial planning efforts, and (3) develop a planning tool, a device which facilitates the analysis of future trends and events as they relate to fiscal impact on the department and the budgeting process.

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Background and Significance

Seemingly overnight Sedgwick County Fire District #1 was faced with numerous issues regarding the future financial status of the district and its ability to provide quality customer service to its stakeholders. Along with current year budget preparations, the district was faced with such questions as: How much would pending annexations by the City of Wichita decrease the size of the fire district, and what would be the financial impact of those annexations? How would apparatus maintenance be accomplished given current and future fiscal restraints? What would be the most efficient method of apparatus replacement in a restricted financial future? What would be the financial impact on the manufacturer's tax rebate? How would the fire district continue to deal with insufficient staffing levels without increasing revenues to provide constant staffing and hiring of additional personnel?

The impact of not having a multi-year financial planning tool was evident in three areas. The governing body was asking tough questions relating to the impact of current issues on future taxing rates. Management was requesting reports and supporting documents depicting the impact of these issues on current and future operations. Internally, the department was struggling to keep up with shifting financial conditions and current year budget planning and execution. Department operations had become reactive, with concentration and efforts placed on current year issues, without focusing on the future. It became apparent that an overall plan for assessing ongoing financial conditions and determining pending priorities was essential for future fiscal integrity.

The financial issues facing Sedgwick County Fire District #1 are not unique. Many fire departments across the country are being asked to "do more with less." Revenues are becoming scarce and are being spread among differing forces. Organizations are being asked to justify their existence through strategic plans. The Fire Service Financial Management course at the National Fire Academy has devoted an entire chapter to the topic of financial planning.

The absence of a financial planning tool had become a significant problem in solving pending financial issues for Sedgwick County Fire District #1. It became necessary to make the strategic move from reactive to proactive planning, and aggressively attack financial planning issues through the development of a five-year financial plan.

Literature Review

If a budget is a plan (Riley & Colby, 1991; Mikesell, 1995), why is financial planning so critical to the fiscal survival of an organization? Through the literature review conducted, I will describe the components of a multi-year financial plan, detail the essential elements in each component, and show the relationship between multi-year financial planning and the budgeting process.

Elements of Multi-Year Financial Planning

A thorough investigation of the literature reviewed revealed that the three ingredients necessary in developing a multi-year financial plan are (1) an informed decision making process, (2) a strategic planning process, and (3) a method of forecasting revenue and expenditure streams. <u>An informed decision making process.</u> A process that ensures informed decision making is essential in all elements of government, and can be especially important as it relates to financial planning. One such method has been adopted by Sedgwick County. The Sedgwick County Management Model (Sedgwick County,

1996) sets forth a procedure of decision making and problem solving that ensures complex issues are explored in an organized and thorough manner. The six step process keeps decision makers on course and ensures that they are making good decisions.

Step 1: Define the issue and/or opportunity. The purpose of step one is simply to describe the current issue/opportunity. It is important to differentiate between symptoms of a problem and the problem itself. Through this step you will define not only what the problem is, but what it is not, remaining focused on the facts, and doing so without attaching blame. The key element in step one is action, you must be able to act upon the issue/opportunity you define.

Step 2: Identify key stakeholders. A stakeholder is anyone with a direct interest in the issue/opportunity or someone who can influence the situation. Rarely can we be successful by ourselves. By getting stakeholders involved you can achieve buy-in to the solution, leading to a greater chance of success. Effective relations with stakeholders allow for thinking "outside of the box," seeing the situation from the standpoint of others. Identifying key stakeholders will also lay the groundwork for step three.

Step 3: Understanding the current situation from all perspectives. Step three involves bringing together the stakeholders identified in step two and conducting discussions concentrating on how each of the stakeholders view the current situation. Through the discussions, all involved will have a broader understanding of the situation which will lead to a more complete picture. By allowing each stakeholder to explain their needs/interests, ownership will be achieved, lending support and commitment to the process, and ultimately success.

Step 4: Create a preferred future. The purpose of step four is to identify a solution that meets the needs of all stakeholders. The future identified must be realistic, achievable, time-bound, and viewed as a win-win situation by all stakeholders. To be successful, it is important to concentrate on what each stakeholder "must-have" and determine what needs to happen to get there.

Step 5: Agree on measurable outcomes - develop a plan. Now is the time to think about the actions necessary to make the previously defined future happen. It is important to be specific about the desired results and the roles and expectations of each stakeholder. The action plans must be specific, results-oriented, and measurable.

Step 6: Monitor progress - Course corrections. Once plans have been implemented, it is important to evaluate their effectiveness. Through measures developed in step five, it can be determined if the desired results are being accomplished, and if not, make adjustments and course corrections as necessary.

The key to making this process successful is flexibility. Although there are six defined steps in the Management Model which must be followed if the process is to be effective, the process must remain flexible. If you arrive at step four, creating a preferred future, and realize that important stakeholders have been omitted from the process, you should immediately return to step two, identify key stakeholders, restarting the process from that point.

<u>Strategic planning.</u> As the fiscal arena in which local government operates becomes more challenging and complex, it requires the adoption of a systematic approach for evaluating consequences of alternative management policies and external events (Brod, 1992). A strategic approach to financial management is becoming critical as policy makers are basing current financial decisions on future goals and objectives (Hildreth & Mecimore, 1997). Strategic planning "involves an examination of the

organization and its environment by those who have a stake in its future success" (Gordon, 1993, p. 4). Strategic planning promotes focusing decisions on the future and provides a platform for long term evaluation of programs and services while enabling the jurisdiction to operate in a dynamic environment (Brod, 1992; Gordon, 1993).

The process of strategic planning asks four basic questions of an organization: Where are we now? Where do we want to be? How do we get there? How do we measure our progress? (Governor's Office, 1994). The answers to these questions are found in the process of environment scanning, and development of a mission statement, goals, objectives, action plans/strategies, and performance measurements. Environmental scanning focuses attention on the current environment, defining where the organization is in relation to internal and external forces. The development of a mission statement and establishing goals and objectives take the current focus into the future defining where the organization wants or should be. Action plans/strategies detail how to get from the current environment into the future while performance measurements evaluate progress (Gordon, 1993; Governor's Officer, 1994; Hildreth & Mecimore, 1997).

The first step in a strategic planning process is to examine where the department is through a process called environmental scanning (Gordon, 1993; Governor's Officer, 1994; Hildreth & Mecimore, 1997). An environmental assessment will help the organization identify its external opportunities and threats as well as its internal strengths and weaknesses (Governor's Office, 1994). "Opportunities and threats include changes in the political, legal, economic, social, technical, and demographic setting of the entity" (Hildreth & Mecimore, 1997, p. 13-2). Understanding opportunities and threats will help the organization not only predict changes in the external environment, but assess their impact on current operations (Gordon, 1993).

An examination of internal strengths and weaknesses can yield insight into an organization's current position, and identify any existing problems and future potential (Governor's Office, 1994). Focusing on the internal environment will help the organization enhance its strengths while lessening any weaknesses (Hildreth & Mecimore, 1997).

Environmental scanning involves identifying customers and stakeholders, both internal and external to the organization, and determining how they envision the organization in the future. The best way to find out what customers and stakeholders think is to ask them (Governor's Office, 1994). Valuable sources for gathering information include employee, citizen, and quality assessment surveys, policy development files, management retreats, budgets and annual reports, program evaluations, public meetings, national and regional professional organizations and associations, interest or advocacy groups, and the media (Governor's Officer, 1994; Hildreth & Mecimore, 1997).

A mission statement is the organization's reason for existing (Riley & Colby, 1991). The mission statement answers the questions: Why do we exist? What do we do? Who do we serve? (Community Policing, 1995; Governor's Office, 1994). As the mission statement reflects the organization's purpose, it should be noncontroversial, requiring few modifications over the years (Canary, 1992). It should be clearly stated, believable, inspirational, shared among all participants, and widely disseminated (Community Policing, 1995; Gordon, 1993). The steps in developing a mission statement include identifying the purpose of the organization, what functions it serves, and what services it provides. Second is the identification of clients/customers and stakeholders and determining their needs and wants. And finally, identification of current needs or distinct problems to be addressed (Governor's

Office, 1994).

Goals are generalized statements that clarify the mission of the organization. They should be concise, yet not specific and nonquantitative, remaining general enough to stimulate creativity and innovation while providing a detailed level of planning (Gordon, 1993; Governor's Office, 1994; Hildreth & Mecimore, 1997). Stated in general terms, goals provide a focus for the organization to accomplish its mission, thereby establishing guidelines for activity (Community Policing, 1995). They should be few in number, usually less than ten, with each representing long-term service perspectives (Gordon, 1993; Hildreth & Mecimore, 1997). Developing goals helps seek clarification by determining what is to be done and how well it will be done (Governor's Office, 1994).

Objectives are the specific short-term outcomes that move the organization toward its previously defined goals (Community Policing, 1995). They should be specific, action-oriented, measurable, time-bound, and realistic (Community Policing, 1995; Gordon, 1993; Governor's Office, 1994). Objectives are developed for each goal based on specific outcomes to be achieved. The objectives developed should be correlated to a specified time frame for the purpose of achieving results and determining how progress will be measured (Governor's Office, 1994).

Action plans/strategies are the actual activities that will be performed in the delivery of services to the public (Community Policing, 1995). They answer the "How do we get there?" portion of the strategic planning process (Governor's Office, 1994). Action plans/strategies represent a detailed description of how an objective will be implemented and should be directly tied to specified desired outcomes (Community Policing, 1995; Gordon, 1993; Governor's Office, 1994). Action planning involves two general activities, planning tasks and developing stakeholder commitment. The planning portion involves preparation of a detailed description of activities to accomplish the defined objectives, while involving stakeholders in the process ensures support and commitment from those who will be affected by the action (Gay, 1993). When developing action plans/strategies it is necessary to assign responsibility for completion of the plan, set a time-frame for execution, detail the action plan/strategy into steps, and determine the necessary resources to carry out the action plan/strategy (Governor's Office, 1994).

The goal of performance measures is to improve the quality of management and policy decisions by providing a clear picture of the activities and accomplishments of the organization, and in doing so, holding agencies accountable for their actions (Ammons, 1995; Governor's Office, 1994). Performance measures are tools that measure work performed and results achieved by answering four key questions: How Many? How efficiently? Of what quality? To what effect? (Ammons, 1995; Governor's Office, 1994).

Good performance measures have the following characteristics (Ammons, 1995; Hildreth & Mecimore, 1997):

- Meaningful - significantly and directly linked to the mission and goal.
- Timely - to have value they must be compiled and distributed promptly.
- Reliable - the measure must be accurate and not based on subjectivity.
- Comprehensive - the most important performance dimensions are captured by a set of measures.
- Cost effective - based upon accepted data collection and processing costs.
- Involve work teams - it is important to involve the employees and supervisors who deliver the services.

- Understand lawmakers' priorities - efforts to measure must gain the endorsement of the lawmakers.

Most performance measures may be classified as one of four types: workload, efficiency, effectiveness, or productivity (Ammons, 1995). Workload measures indicate the amount of work performed or services rendered. Efficiency measures reflect the relationship between work performed and the resources required. Most commonly, efficiency measures will be presented as unit costs. Effectiveness measures determine the degree to which performance objectives are being achieved and reflect the quality of performance. Productivity measures combine dimensions of both efficiency and effectiveness measures in a single indicator. Productivity measures are usually represented by a ratio of services provided and results achieved.

Workload measures are typically the easiest to collect data and measure results, however, their use should be limited. Although workload measures reveal how much work was done, they do not address how well or efficiently it was accomplished. Greater insight into performance levels will be achieved with efficiency, effectiveness, and productivity measures (Ammons, 1995). It is important to look upon performance measurement as a continuous process, a constant cycle of review, refinement, and revision. As data is collected and results calculated, it may be necessary to modify measures to meet changing needs and circumstances (Hildreth & Mecimore, 1997).

Although strategic planning can help steer an organization through difficult decisions by prompting thought, provoking internal and external examination, and facilitation of decision making, it does not relieve decision makers of their duties nor can it prescribe specific courses of action (Gordon, 1993; Hildreth & Mecimore, 1997). "Awareness of some common faults in the process and product of strategic planning can help planners avoid some of them" (Gordon, 1993, p. 11).

Gordon (1993) identifies the following as the most common pitfalls and faults associated with strategic planning. Regarding the plan as an end point is the first pitfall to avoid in strategic planning. The plan is simply the structure resulting from the process. The greatest benefits of planning are derived from the process: the discussions, analyses, and thought processes leading to decisions. Once developed, the strategic plan must be disseminated, explained, and promoted.

The second pitfall to avoid is to regard the plan as unalterable. Plans and their analyses need to be constantly reviewed with rigorous scrutiny. If conditions change, or if actual performance varies too much from the stated goals and objectives, it is necessary to assess why this is happening and react with course corrections.

Another frequent error is to permit preconceptions to be incorporated into plans without thoroughly questioning their validity. Questioning assumptions and preconceptions requires a conscious decision to solicit input from all levels of the organization.

Lack of a full commitment to the process at all levels of the organization is another pitfall common to strategic planning. Involving individuals throughout the organization helps ensure their commitment. Anything less than enthusiasm for the process will be felt in subsequent planning cycles.

Still another pitfall is the adoption of strategies which might damage the organization's effectiveness. The various components of a total plan are not always directly related to one another and can even work toward cross purposes. Care must be taken to ensure that the goals adopted in the plan are the right goals for the organization and are in alignment with the mission.

A final pitfall is for local government to become confined in their thinking because of various limits on them. Lack of funding often impedes change, even when decision makers are motivated and prepared to implement new strategies. Strategies for developing new solutions, innovations, and striving for efficiency are the results of strategic planning.

Forecasting revenues and expenditures.

Forecasting is an essential ingredient in effective financial planning, whereby forecasting revenue and expenditure streams help policy makers understand the implications of their financial decisions (Matzer, 1984). Forecasting includes the analysis of indicators and trends for the purpose of projecting what the levels of revenues and expenditures might be sometime in the future. A projection, as defined in Webster's Dictionary, is "an estimate of future possibilities based on a current trend" (Webster, 1979, p. 913). "By analyzing current trends and the forces that underlie them, we can make a projection" (Linear, 1996, p. 183).

Throughout the literature, four commonly used forecasting techniques emerged: judgmental/expert, trend, deterministic, and econometric. The four approaches to forecasting "have varying degrees of precision, depending on the level and accuracy of the components" (Stegmaier & Reiss, 1994, p. 13). There is no one best method, each jurisdiction must decide which method will produce desired results, weighing the availability of resources and time constraints. In practice, most agencies combine several methodologies depending on the nature of the revenue or expenditure being forecast (Bland & Rubin, 1997).

In judgmental/expert forecasting, predictions of revenues and expenditures are made by an expert, someone who is familiar with the particular source of the revenue or element of an expenditure (Forrester, 1991). The expert's "best guess" becomes the forecast based on a professional judgement that comes from experience and careful observation (Bahl & Schroeder, 1987; Bland & Rubin, 1997). While this method is inexpensive and has proven to be accurate in the short run, its reliability is dependent on the subjective judgement of the expert (Schroeder, 1984). Additionally, revenues and expenditures are likely to be dependent upon several factors operating simultaneously, making it difficult for the expert to take everything into consideration, further jeopardizing the accuracy of the forecast (Schroeder, 1984).

Trend forecasting takes a more systematic approach to forecasting than the judgmental/expert method, basing predictions solely on time and prior changes in revenue and expenditure streams (Bahl & Schroeder, 1987; Forrester, 1991). Trend forecasting is used for revenues and expenditures where growth is usually steady from year to year (Bland & Rubin, 1997). Trend projections are fairly simple to implement and are reasonably accurate, however, when external factors change from past performance, the forecast is more likely to vary from actual performance (Stegmaier & Reiss, 1994). A common assumption used in trend analysis is the application of a constant growth rate, which ignores changes in economic and demographic conditions, thereby limiting the forecast to predict turning points in revenue and expenditure streams (Schroeder, 1984).

With deterministic forecasting, predictions of revenue and expenditure rates are based on a percent change in a social, economic, or some other variable that directly affects the revenue or expenditure being forecast (Forrester, 1991). Deterministic methods rely on a simple mathematical formula of multiplying a variable by its base (Bland & Rubin, 1997). This method builds policy assumptions into the projection by assigning future values to the multiplicands being forecast (Bahl & Schroeder, 1987). Although the deterministic method incorporates outside factors into the forecasting process, accuracy of the forecast is jeopardized when the relationships of the variables change (Schroeder, 1984; Stegmaier & Reiss, 1994).

Econometric forecasting draws from both economic and statistical theories, using multiple variables to predict future revenue and expenditure streams (Forrester, 1991; Schroeder, 1984). Unlike other methods of forecasting, the econometric approach considers the effects of simultaneous changes in a set of independent socioeconomic variables, yielding results that can be analyzed for statistical significance (Bland & Rubin, 1997; Bahl & Schroeder, 1987; Schroeder, 1984). While econometric modeling has the advantage of using multiple variables, it requires the ability to accurately determine variables and their relationship with each other (Stegmaier & Reiss, 1994). To be effective, assumptions must be clearly identified, valid, and defensible (Bland & Rubin, 1997). In its simplest form, econometric forecasting uses a collection of historical data for each variable, performing a linear regression to statistically estimate relationships among variables, and using those projected values to yield forecasts (Schroeder, 1984). Effective econometric modeling is limited by technical expertise, extensive data collection, and the availability of significant computer technology (Stegmaier & Reiss, 1994).

Regardless of the method utilized, there are limitations inherent in all forecasting techniques, and to some degree, the forecast will be wrong (Brod, 1992). Common limiting factors in forecasting include the availability of timely and accurate data, a subjective judgement necessary in making assumptions implicit in forecasting, the cost of implementing the technique, and the availability of trained staff (Matzer, 1984). The further into the future projections are made, the more uncertainty produced. The first years of a multi-year forecast will provide the highest degree of accuracy (Brod, 1992). Other factors that limit accuracy in forecasting methods include; local, state and federal mandate changes, state and local economic fluctuations, lack of current local indicators, and inadequacies in staff performing forecasting procedures (MacManus, 1992).

Disclosure of forecasting techniques and the underlying assumptions used to produce the forecast are imperative. When uncertainties exist in the forecast results, the tendency to believe the forecast as biased in favor of the decisions which they are based upon prevails (Brod, 1992). Politics more often than economics ‘often’ or ‘almost always’ dictates the outcome of decisions (MacManus, 1992). Politically charged forecasting often results in unrealistic projections (Stegmaier & Reiss, 1994).

With the limitations of forecasting in mind, it is important to also understand the advantages of forecasting. Forecasting allows time to make course corrections when shortfalls are inevitable, provides a better understanding of the overall financial condition in the community, allows the use of that knowledge to formulate policies and to guide future decision making, and it promotes a better understanding of long range fiscal decisions (Matzer, 1984).

Each method has advantages and disadvantages, with the primary trade off among methods being cost, availability of resources, and type of information it provides (Schroeder, 1984). A good starting point in the development of a forecasting technique is to analyze the organization’s readiness for such a function (Wheelwright & Makridakis, 1987). Wheelwright and Makridakis (1987) have identified six elements to be considered before implementing any forecasting procedure. First, seeking input from management at the beginning of the developmental stage of a new forecasting application is essential. Forecasting plays a supportive role in decision making. Before beginning any forecasting process, work with management to identify what type of information would be useful to assist in the decision making process.

Second, identify key support staff to engage in the forecasting task. Staff assigned the task of forecasting will be responsible for data collection and the applications of the forecasting techniques. In addition to technical skills and abilities, the analyst needs to have an understanding of management issues plus the ability to communicate with management the techniques utilized and appropriateness of the applications.

The third element to be considered is data collection. Technical expertise is essential at the data collection level. Data must be complete and accurate. The importance in the quality of data can be summed up by the old adage, "garbage in, garbage out." If the data fed into the forecasting technique is of poor quality, the results will be flawed.

Fourth, you need to choose the appropriate forecasting method, methods, and/or variations of a method. Strengths and weaknesses of available forecasting techniques must be analyzed. Choosing the appropriate technique will determine the accuracy and effectiveness of the results. Those utilizing the final product need to understand the technique used and recognize its strengths and weaknesses.

The fifth element to consider is how the information gathered through the chosen forecasting technique will be communicated to management. How the forecast is communicated with the decision makers will ultimately determine its usefulness. It is important to include not only forecast results, but assumptions inherent in the data along with an explanation of the method used.

And lastly, a system to analyze feedback and conduct comparisons of actual results to forecast results needs to be established. Periodic reviews are necessary to determine the effectiveness of any forecasting application. Close analysis of errors and identifying any trends in errors can be especially useful in making corrections for future forecasts.

All six elements should be considered before proceeding with any forecasting method. Understanding the situation for which you forecast and how the forecast will be used in the decision making process, will ultimately determine which forecasting technique is best for the specified purpose and its value.

The Relationship Between Multi-Year Financial Planning and The Budgeting Process

Although the annual budget focuses on a single twelve month period, spending and revenue decisions made today have long lasting fiscal effects (Bahl & Schroeder, 1987). "In many respects public decision making has grown more complex in recent years" (Brod, 1992, p. 25). Multi-year financial planning can be systematically linked with the budgeting process.

An informed decision making process lays the groundwork for multi-year financial planning, and in turn, this planning process is used in decision making. "Budget planning can be used as a decision making tool for ensuring continuity of activities, developing new programs, and allocating resources among government activities" (Mikesell, 1995, p. 38).

Traditional budgets do not make good decision making tools, instead, the budgeting process impedes the planning process (Mikesell, 1995). Mikesell (1995) identifies four areas in which traditional budgeting practices flaw decision making practices. First, public decisions require meaningful measurement of the cost of achieving desired objectives. Traditional budgeting processes do not provide that information in a usable format. The traditional budget approach tends to focus on the bottom line target, and in doing so the allocation of resources is based on an administrative-department basis, not on what departments actually intend to achieve.

Second, traditional budgets are developed and considered on a single year basis without developing cost profiles over time. Informed decision making requires that the total cost of a project be examined, not just the single year cost.

Third, reasonable choice requires that alternative methods of reaching desired objectives be compared. Seldom is there only a single way to provide a service, however, the traditional budgeting process blocks operational vision and traps agencies into conventional operations.

Lastly, a public decision must weigh the cost of public action against the worth of that program to society. The traditional budget emphasis is on line-item costs, excluding social costs not directly paid. The comparison of cost and program value is not a typical component of budget processes.

By including strategic planning as a component of multi-year financial planning, jurisdictions are forced to think in longer time frames, develop accounting systems for contingent developments and uncertainties, develop links between planning and budgeting, and are forced to operate in a dynamic and continuous process (Brod, 1992). "Strategic planning and budgeting are integral components of good management. The strategic plan charts direction, while the budget provides the resources necessary to implement the plan" (Governor's Office, 1994, p. 9). Strategic planning guides the budget process, requiring that "financial managers develop a decision making framework, identify specific goals and objectives, establish priorities and implement the component activities necessary to achieve them" (Wetzler & Petersen, 1987, p. 14).

Good financial management starts with a mission and concludes with a budget. "The mission statement provides the foundation for the establishment of goals which, in turn, is the foundation for the establishment of objectives which, in turn, influence the amount of resources required to accomplish the mission of the government entity" (Hildreth & Mecimore, 1997, p. 4-9).

"Forecasting at the local government level always has been of critical importance in annual budget development and execution" (Stegmaier & Reiss, 1994, p. 13), and can be an integral part of overall financial management (Bahl & Schroeder, 1987). "Forecasts are the cornerstones of strategic planning" (Brod, 1992, p. 25). The underling projections of forecasting are directly related to budget execution in the allocation of resources, services to be provided, and plans for the future (Stegmaier & Reiss, 1994). Annual budget preparation includes understanding the impacts resulting from new capital projects, mandates from other government units, demographic or economic changes, and/or policy changes (Bahl & Schroeder, 1987). Any of these elements may represent changes to current services, and a forecasting technique to estimate the departure from current service levels.

If a formal linkage is established between multi-year financial planning and the annual budget, forecasts will be kept realistic. Agencies should take a more serious approach to forecasting if these forecasts are the basis for future budgets (Bahl & Schroeder, 1987). To be an effective component of the budget, a forecast must be more than a wish list. It must force the analyses of the long term implications of today's decisions. A good forecast will result in a deeper consideration of the true cost of service (Bahl & Schroeder, 1987).

Another important link between forecasting and budgeting is the prevention of surprise. One of the principal uses of a forecast is the projection of fiscal 'gaps' or revenue shortfalls (Schroeder, 1984). A forecast can provide an early warning signal for a future revenue gap, allowing corrective steps to be taken before the situation becomes critical (Bahl & Schroeder, 1987).

In summary, the components of multi-year financial planning include an informed decision making process, a strategic plan, and forecasting revenue and expenditure steams. Multi-year financial planning is linked to the budgeting process through simplification and enhancement.

Procedures

Research Methodology

The desired outcome of this research project was twofold. First, to gain understanding of the process of multi-year financial planning and to use that process in the development of a five-year financial plan. Second, to use multi-year financial planning in future years to enhance the budgeting process.

This project involved action research methods to define the components of multi-year financial planning and to gain knowledge necessary to implement each step defined in the planning process, improving the ability to analyze, project, and foresee the effects of a series of fiscal challenges facing the fire district. Further, information was sought to help the fire district understand the relationship between multi-year financial planning and budgeting and the underlying benefits associated with the planning process.

Developing a Five-Year Financial Plan

At each juncture in the process of developing the multi-year financial plan, informed decision making procedures were implemented. Depending on the specific aspect of the process, key stakeholders were identified and brought to the table. The process was a joint effort involving the policy makers - the Board of County Commissioners, management - the County Manager's office, and staff from the Bureau of Finance. Knowing that the success of the planning process was dependent on stakeholder involvement, a cross section of fire district employees were involved along with various stakeholders from the community. Throughout the development process, issues and/or opportunities were defined as stakeholders enthusiastically offered their opinions allowing a picture of the fire district's future to emerge as action plans were defined.

As the first step in strategic planning, both an internal and external environmental scanning was conducted through employee meetings and management retreats as policy development files, past budgets, and annual reports were reviewed. Through external environmental scanning two external threats were identified as having an immediate impact on the fire district. First, aggressive annexations by the City of Wichita were causing the fire district to decrease in size, thus reducing revenue from property taxes. Second, political maneuvering between the City of Wichita and the fire district concerning overlapping of jurisdictional boundaries was constricting the quality of service rendered to the citizens of Sedgwick County.

Internal opportunities identified included the incorporation of volunteer departments which are located within district boundaries, thus increasing the size of the district and enhancing the tax base. A second opportunity that was recognized was to establish partnerships with various businesses located outside jurisdictional boundaries but within response areas, establishing contracts for service.

To better understand how the citizens in the community view services provided by the fire district, a committee was formed to create a customer satisfaction survey. This survey is to be administered either at the time of service or during a following up contact. Although the formulation of the survey is still in progress, it is targeted to be distributed to district stakeholders this summer.

Internal strengths such as strong community participation, dedication of employees, and quality facilities, equipment, and apparatus were identified. Lack of trust in current department planning practices, overall strength of the budget, inadequate staffing, and insufficient computer technology and expertise topped the internal weakness category. Now that we were beginning to understand the current environment, the next step was to review our mission statement and develop department goals and objectives.

Through stakeholder meetings, it was determined that our existing mission statement accurately stated our reason for existing, thus required no changes. With the mission statement intact, efforts shifted to the development of goals, objectives, and performance measures. Stakeholders, both external and internal to the department were assembled to begin the process of designing goals and objectives. During the development of goals, emphasis was placed on keeping them high enough to challenge the district, but realistic enough to be attainable. Four goals were developed, each concentrating on service provided to fire district stakeholders. Specific objectives were then generated for each goal. The objectives were primarily designed to balance the availability of resources with customer service.

While developing performance measurements, emphasis was placed on identifying measures that would reflect the fire district's efficiency, effectiveness, and productivity, while keeping the measures consistent with available data collection resources. Specific measures were developed for each set of objectives.

The mission, goals, objectives, and performance measures established (see Appendix A) represents the product of numerous drafts and alterations. As the planning process proceeded, the goals, objectives, and performance measures were refined many times. With the initial phase of strategic planning complete, focus shifted to a line-item by line-item evaluation of general fund finances, including identification and analysis of all factors that would likely impact the district's financial condition in each of the following five years.

Forecasting revenue and expenditure streams was accomplished using a variety of techniques, depending on the characteristics of the line-item being forecast. Because the fire district budget is mill levy driven, a critical element in forecasting was the projection of assessed valuation and percent valuation growth. The County Appraiser was enlisted as an "expert" to help project assessed valuation and its accompanying revenue streams. Property tax projections were based on assessed valuation growth, expected alterations of the taxing district based on pending annexations by the City of Wichita, combined with economic fluctuations in the local economy. User fees were projected based on historical data, using regression analysis to project trends into the future. Because charges for service are set by contract and based on assessed valuation, the County Appraiser was again utilized as an expert to project future revenues based on changing assessed valuation rates. Other revenues were projected using trend analysis, factoring in economic fluctuations in the community.

Expenditures were forecast using various combinations of trend and deterministic forecasting methods. Each line-item was individually forecast, allowing for a close examination of past performance and future expectations. Close attention was given to forecasting of personnel costs since they represent 90% of total expenditures. Experts were enlisted in the project as members of the Bureau of Finance and Bureau of Human Resources combined forecasting efforts. The forecasts for personnel costs were based on cost of living adjustments, merit increases, and estimates of future fringe benefit increases.

Utility expense was projected using trend analysis and adding percent increases for future years. Station maintenance items, such as roof replacement, interior and exterior painting, replacement of hot water tanks, refrigerators, and stoves, were forecast using replacement schedules. The replacement schedules were based on life expectancy, building in an inflationary cushion for future years. All divisions submitted a list of planned expenditures for various subscriptions, dues, and fees to professional organizations and periodicals. They also submitted details of any training or seminars to be attended including travel costs and registration fees. These lists were analyzed against past expenditures and became the basis of the forecasts for personnel development expenditures. All other contractual and commodity expenditures were projected using trend analysis based on historical data.

Once projected, major spending categories were totaled and the results of the forecasts were captured in a spreadsheet based software program (see Appendix B). The level of detail contained in the spreadsheet was limited, including only essential elements found in the formulas used to calculate growth factors. Supporting files were created to save all documents and supporting details used in the development of the forecasts, including any back up material used, replacement schedules, and the basis for all assumptions and the rational utilized in the forecasts.

Enhancing the budgeting process

Completion of the initial five-year financial plan was timed to correspond with current year budget preparation. The newly developed five-year financial plan was completed in time to be used in the preparation stage of the annual budgeting process. Through the strategic planning process, focus was placed on long term goals and objectives as substantiated by the department's mission statement, thus the planning decisions as they related to the goals and objectives of the fire district were made through the strategic planning process, not the budgeting process. This allowed decisions to be based on the long term initiatives of the department, not current year allocations.

Through the planning process the ground work for the budget had been constructed. The first year of the five-year financial plan served as a basis for budget preparation. The five-year financial plan created by forecasting revenue and expenditure streams, assessed valuation, and district growth was easily transformed into the current year budget target. The detail of analysis put into the earlier forecasts served the budget process well. Expenditure levels were set based on projected revenues as the numbers were transferred from the five-year financial plan supporting documents to the budget, with only minor adjustments necessary.

During budget approval, the strategic plan once again was used as the basis for the current year budget process. Justifications presented to the governing body in relation to policy decisions were taken directly from the strategic plan, emphasizing the long term initiatives of the department. The forecasts and replacement schedules used to develop the five-year financial plan became the justifications for current year allocations. Because the governing body was involved in the early stages of the strategic planning process, their involvement helped bring conviction to our spending requests.

The multi-year financial plan also served as a check and balance against current year budget execution. A simple spreadsheet of actual revenues and expenditures as compared with projected revenues and expenditures was created. The spreadsheet traced revenue and expenditure levels giving indication as to how the actual and projected levels compared. In addition to tracking, the spreadsheet was used to assess the accuracy of the forecasts. The multi-year financial planning process both simplified the current year budgeting process and served to enhance it.

Results

The result of this research project was the identification of a comprehensive multi-year financial planning process for the fire district that met the needs of the governing body, management, the fire district, and the citizens of Sedgwick County. Multi-year financial planning served three functions in the overall financial management of the district. First, it allowed the district to start planning now for the future. Second, it provided an avenue to bring current budget preparation and execution in line with multi-year financial planning efforts. And thirdly, it provided the information necessary to develop a five-year financial plan.

The essential components of multi-year financial planning that were identified included (1) an informed decision making process, (2) a strategic planning process, and (3) a method of forecasting revenue and expenditure streams. An informed decision making process provides decision makers with a systematic approach to decisions that kept the focus centered on the issues while involving stakeholders essential for producing positive outcomes.

A strategic planning process provides a systematic approach for examining the current internal and external environment through a process called environmental scanning. Through the development of a mission statement, goals, and objectives the strategic planning process identifies the direction that the organization is moving, keeping focus on the long term initiatives of the department. The action plans/strategies developed provide details of actual activities to be performed in the delivery of services. Performance measures provide accountability, establishing a system for the evaluation of activities.

Forecasting revenue and expenditure streams is accomplished using a combination of techniques. The four most commonly used forecasting techniques include judgmental/expert, trend, deterministic, and econometric. In judgmental/expert forecasting, an expert's professional judgement becomes the forecast. Trend forecasting bases predictions on past performance, assuming constant growth will occur over time. Deterministic forecasting predictions are based on a percent change of a variable that directly affects the revenue or expenditure being forecast, multiplying the variable times its base. Econometic forecasting draws from both economic and statistical theories allowing for the forecast to be based on a set of independent socioeconomic variables. There is no one best forecasting method, with most agencies combining several methodologies, depending on the characteristics of the revenue or expenditure being forecast.

Multi-year financial planning serves as a basis for the current year budget and can greatly enhance the budgeting process. Decisions on current spending are made through the long term planning process of strategic planning. Spending justifications are found in the strategic plan and through the forecasts generated. Budget execution can be compared to predictions providing a system of checks and balances on spending patterns.

All three components of multi-year financial planning can be directly linked with the budgeting and help enhance the annual budgeting process. It is difficult to achieve long range goals when focusing on a one year budget. Multi-year planning becomes the avenue for addressing long range operations and the annual budget is the vehicle used to implement them.

The five-year financial plan that was developed as a result of the multi-year financial planning process for the fire district serves as a management tool used to facilitate the impact of trends and events as they relate to fiscal impact on the department. The final product was designed to enable the testing of various fiscal impacts, projecting them into the future.

Discussion

Multi-year financial planning as defined in this report exemplifies a dynamic and proactive approach to financial management. Following the outlined process enables any jurisdiction to conceptualize financial impacts as it provides a stimulus for change. By understanding trends from the past and making assumptions regarding the future, while continuing to focus on the mission of the department, multi-year financial planning can carry the organization through the financial maze of resource allocation. The process as defined through this project does produce a desired outcome but cannot be applied as written to all jurisdictions.

Although the literature review delineated specific steps involved in multi-year financial planning, exact replication was not possible. Multi-year financial planning, by its very nature, must be internalized by individual departments. As the reasons behind the commitment to undertake multi-year financial planning initiatives are unique to each department, so are the processes. While the steps remain constant, the actual implementation will change dramatically from one jurisdiction to another, with the needs of the jurisdiction controlling its path. What works well for one jurisdiction will not produce desired results in another. Innovation is essential when developing a process that will work for your jurisdiction.

The one constant element in multi-year financial planning is the use of an informed decision making process. Multi-year financial planning involves making decisions. Poor decisions cost time and money, which are scarce resources. Adoption of a well thought out decision making process serves to accent multi-year financial planning.

The process of multi-year financial planning has lent credibility to Sedgwick County Fire District #1. Policy makers, management, and the fire district now have a shared vision of the future and a financial tool to be utilized when projecting future financial outcomes. Through the planning process, the fire district was forced to look into the future and develop detailed plans regarding all aspects of department spending, thus justifying our existence.

Utilizing the five-year financial plan has become an automatic response to all requests coming from the governing body and management. The fire district now has the means to address the questions and concerns regarding our future financial activity accurately, in a timely manner, and with confidence.

Recommendations

My first and foremost recommendation stemming from the research conducted in this paper is to encourage jurisdictions to take a proactive approach to financial planning beginning with the adoption of an informed decision making process. Decisions made today have a substantial impact on tomorrow's operations. The majority of this paper concentrated on the specific processes involved in multi-year financial planning with little elaboration on decision making. Decision making is the overriding force of financial planning. All actions require a decision to be made, whether it is the decision to initiate a financial planning process or which forecasting method will produce desired results.

The implementation of an informed decision making process can be an invaluable tool. Most decisions start with implementation of some form of action. As seen in the process identified in this paper, taking action was addressed as step five of a six step process. By starting with action, key elements of the process are omitted. By failing to identify issues and not bringing together key stakeholders to create a vision for the future, you may take premature action, spending valuable resources and wasting precious time.

My second recommendation to any organization embarking on multi-year financial planning is to secure a full commitment from stakeholders and to conduct a thorough inventory before beginning the process. Before launching the planning process get organized and educated, conduct research, and identify your desired outcomes. Each step in a strategic planning process can be time consuming, utilizing many resources. Before holding meetings prepare a detailed agenda blocking out a specified amount of time for each discussion activity. Be sure to bring all necessary supplies including charts and markers for brainstorming sessions.

My final recommendation is do not get discouraged by set backs. Multi-year financial planning requires constant attention and adjustments. The end result is not a final product.

Multi- year financial planning is a dynamic process that must be revisited on a regular basis, making changes and course corrections as the environment changes. The key to making multi-year financial planning work is to start by defining desired outcomes, building flexibility into the process, and keeping it tailored specifically to the needs of the organization.

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Appendix A

SEDGWICK COUNTY FIRE DISTRICT #1
STRATEGIC PLAN

MISSION STATEMENT

No governmental function is more basic to an orderly society than the protection of life and property. To this end, the Fire District provides;

- fire suppression, rescue, and emergency medical service;
- protection of life and property by enforcing state and local codes;
- fire safety education to district stakeholders;
- accurate determination of the cause of fires.

GOALS AND OBJECTIVES

Goal #1: Respond rapidly and accurately to all types of emergencies including fire suppression, rescue, medical, and hazardous material incidents while ensuring the safety of our employees.

Objectives:

- Reduce the response time for all emergencies.
- Provide in-depth fire and emergency service training to employees.

Goal #2: Provide the highest quality medical care possible.

Objectives:

- Ensure all employees receive EMT recertification and continue to improve competency.
- Monitor the emergency care provided through quality assurance.

Goal #3: Reduce community risk factors throughout the Fire District.

Objectives:

- Enforce state and local fire codes.
- Provide fire education to district stakeholders.
- Accurately determine the cause of fires.

Goal #4: Improve fire and emergency services to all citizens.

Objectives:

- Develop partnerships with communities and other emergency providers throughout the Fire District.
- Actively pursue mutual aid, automatic aid, and first responder agreements with surrounding fire departments.

PERFORMANCE MEASUREMENTS

MEASURE	1997 ACTUAL	1998 ESTIMATE	1999 PROJECTED
Total alarms	5,436	6,000	6,700
Fire alarms	642	650	700
Medical alarms	2,958	3,000	3,100
First responder alarms	878	900	1,000
Percent of fire/rescue calls responded to within six minutes	70%	75%	75%
Percent of medical calls responded to within five minutes	70%	75%	75%
Dollar loss of property	$2,717,411	*	*
Number of firefighters injured	25	*	*
Fire training hours provided per year	41,545	45,700	46,0000
Medical training hours provided per year	5,433	5,976	6,000
Hazardous training hours provided per year	2,260	2,486	2,600
Technical rescue training hours provided per year	1,406	1,547	1,600
Percent of citations issued per total code violations cited	9%	6%	6%
Number of Fire Education presentations	258	260	260
Fire and medical training hours completed with agencies within and surrounding the Fire District	1,000	1,000	1,000
Percent of mutual aid agreements held with fire departments within the Fire District	90%	95%	100%
Number of automatic aid agreement responses with surrounding agencies	2	2	2

* Unable to project.

Appendix B

SEDGWICK COUNTY FIRE DISTRICT #1
FIVE-YEAR FINANCIAL PLAN
1998-2002

						Estimated				
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Mills Levied	14.108	14.561	14.634	14.497	14.026	14.011	14.91	14.91	14.91	14.91
Assessed Valuation	387,069,172	395,646,655	402,771,757	431,400,499	454,767,070	504,422,606	517,033,171	532,444,166	548,520,491	564,976,106
% Valuation Growth	6.67%	2.22%	1.80%	7.11%	5.42%	10.92%	2.50%	3.00%	3.00%	3.00%
Revenues										
Unrest.Cash	229,318	346,057	179,756	513,664	335,961	9,236	0	96,203	92,406	88,609
Rest.Cash	649,122	281,243	396,041	179,756	509,428	714,921	462,791	476,675	490,975	505,705
Ad Val.Taxes	5,238,082	5,455,999	5,735,482	6,053,893	6,193,568	6,820,104	7,439,151	7,662,325	7,892,195	8,128,961
Back Taxes	122,383	132,840	151,889	105,668	103,223	101,675	100,150	98,647	97,168	95,710
Mtr. Vehicle Taxes	907,661	972,192	1,010,822	1,089,817	1,121,038	1,143,459	1,166,328	1,186,739	1,234,208	1,283,557
LAVTR	300,333	313,805	335,656	343,237	345,844	345,000	345,000	345,000	345,000	345,000
User Fees	163,273	56,748	78,103	37,570	87,911	65,000	65,000	65,000	65,000	65,000
Other	63,754	94,304	123,860	177,872	121,595	124,635	127,751	130,945	134,218	137,574
Total Revenues	7,673,926	7,653,188	8,011,589	8,501,477	8,818,568	9,324,029	9,706,171	10,061,534	10,351,171	10,650,136
Expenditures										
Personnel	4,288,436	4,507,672	4,683,613	6,820,324	7,111,346	7,764,772	8,007,468	8,287,729	8,577,800	8,878,023
Contractual Serv.	1,375,406	1,664,963	1,844,063	249,097	233,577	281,910	288,957	296,181	303,586	311,176
Commodities	172,498	189,863	229,118	220,420	192,219	237,522	243,460	249,546	255,785	262,179
Capital Improve	34,826	16,143	9,938	0	128,605	64,900	61,600	38,500	8,250	33,000
Capital Outlay	325,053	47,692	71,547	17,246	26,727	41,109	34,400	34,400	34,400	34,400
Interfund Expend.	883,143	638,605	481,465	357,686	401,964	471,025	497,408	571,796	577,036	570,630
Info. Services	0	2,436	13,873	1,100	3,500	0	0	0	0	0
Motor Pool	10,378	12,787	11,292	8,965	4,181	4,348	4,522	4,703	4,891	5,087
Admin. Chrgs	330,937	394,374	354,399	289,879	301,283	333,160	351,957	366,957	391,957	406,957
Equipment Transfer	507,000	228,997	101,900	57,742	93,000	133,517	140,929	200,136	180,188	158,586
Total Expenditures	7,044,536	7,064,938	7,319,744	7,664,773	8,094,438	8,861,237	9,133,293	9,478,153	9,756,857	10,089,407
Budgeted Expenditures	7,047,003	7,077,285	7,320,621	7,664,973	8,094,711	8,978,015	9,255,828	9,533,503	9,819,508	10,114,093
Special Equipment Balance (December 31)	796,079	869,557	342,603	292,565	152,043	240,168	346,097	329,233	292,421	234,007